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C O N F I D E N T I A L SECTION 01 OF 05 AMMAN 009312

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SUBJECT: JORDAN'S ECONOMIC REFORMS AFTER FIVE YEARS: BOOSTING TRADE AND INVESTMENT (PART II)

REF: A. AMMAN 05784
¶B. AMMAN 09311

Classified By: CHARGE D'AFFAIRES, A.I., DAVID HALE, REASON: 1.4 (B & D)

¶1. (U) SUMMARY: Over the past five years, the government of Jordan has moved boldly to open up its economy to foreign trade and investment. Jordan has become a member of the World Trade Organization, negotiated a Free Trade Agreement with the United States, initialed an Association Agreement with the European Union, and entered into the Agadir Accord, a regional trade association with Tunisia, Morocco, and Egypt. Meanwhile, Jordan's earlier trilateral agreement with Israel and the U.S. on garment manufacturing has at last produced an export boom, with Jordan's exports to the U.S. jumping from a negligible level five years ago (2% of Jordan's total exports) to a projected $900 million in 2004 (over 30% of total exports).

¶2. (U) SUMMARY (cont.): Jordan's leadership realizes that opening to trade is only one part of the equation of globalization. The government also has launched a strong push toward privatization. It has sold majority shares in companies involved in cement, potash and in Jordan Telecom, the current sole fixed-line operator. Plans are moving forward to privatize electricity generation and the flag carrier, Royal Jordanian. The government is improving its investment climate by strengthening its intellectual property protections, and laying the groundwork for vibrant high-tech sectors including pharmaceuticals and information and communication technology, the latter already attracting world-class foreign partners like Microsoft and Cisco. Jordan still faces difficult challenges, including unemployment, poverty, debt, and high energy prices. Nevertheless, with its limited resources, the government is currently doing many things right, with substantial help and guidance from the USG. This is the second of two cables examining the past five years of economic reform in Jordan. END SUMMARY.

THE JOY OF TRADE

¶3. (U) After a severe financial crisis in 1989 which led to a devaluation of the Jordanian dinar, Jordan's economy largely stagnated in the 1990s, with high unemployment and declining living standards. It was in this weak economic environment, in 1999, that King Abdullah succeeded his father to the throne. Abdullah moved rapidly to open up Jordan's economy to the world and Jordan joined the World Trade Organization (2000), signed a Free Trade Agreement with the U.S. (2000, entering into force in December 2001), signed an EU Association Agreement (entered into force in 2002), set up the Agadir regional trade association with Tunisia, Morocco, and Egypt (agreement signed in 2004), and signed a Bilateral Investment Treaty with the U.S. (2003).

¶4. (U) Entering into these agreements, combined with the arrangement to manufacture garments with 8% Israeli content for tariff- and quota-free export to the U.S. market, had an almost immediate impact. Jordan's exports to the U.S., which stood at $13 million in 1999, soared to $650 million in 2003 and should surpass $900 million in 2004. Two-way trade between the U.S. and Jordan will easily surpass $1 billion this year for the second year running.

¶5. (U) The Jordanian garment sector, whose launch predated Abdullah's accession, has surged under his reign. Operating in U.S.-Israeli-GOJ designated areas known as Qualifying Industrial Zones or QIZs, last year the garment sector alone produced $550 million in Jordanian exports to the U.S. The sector employs over 23,000 Jordanians, many of whom are women from rural areas who have never before enjoyed paid employment. Not only do their new incomes boost the economies of their home areas, but their incomes also enhance their status in their families and villages and introduce the concepts of business systems and the cultures of work deeper into the Jordanian society and economy.

¶6. (U) The growth in QIZ exports may slow with the expiration of the Multi-fibre Arrangement on January 1, 2005. However, Jordan should be well-placed to shift some of this business to the U.S.-Jordan FTA, which calls for the gradual

phasing out of import duties over the next ten years, leading to the establishment of a free trade area, applicable to both goods and services. Currently, 83% of tariffs have been eliminated in all major product categories, a percentage which should increase to 95% by January 2005 (although a number of the garment categories produced by QIZs do not zero out until 2010.).

TRADE AND INVESTMENT SOFTWARE

¶7. (U) Jordan's government has also made excellent progress in what could be termed trade and investment software. Since its WTO accession, Jordan has made additional commitments in intellectual property protections including in copyrights and patents and trademarks. Jordan's Food and Drug Administration has launched a cooperative effort with the U.S. FDA to build capacity and enhance Jordan's status as a center for medical tourism and for pharmaceutical manufacturing.

¶8. (U) Even before acceding to the WTO, Jordan passed several new laws to improve protection of intellectual property rights, patents, copyrights and trademarks. TRIPS (Trade Related Aspects of Intellectual Property Rights)-consistent laws now protect trade secrets, plant varieties and semiconductor chip designs. The government continues to enhance the country's IPR regime, promising additional commitments in patents and trademarks by the end of the year. Although IPR enforcement needs improvements, the government has clearly realized how IPR protections promote trade and investment.

¶9. (U) According to a recent World Bank/International Finance Corporation study, Jordan made the most progress of any Middle Eastern country toward improving its investment climate in 2003. Yet the government does not wish to rest on its laurels. As the new Trade and Industry Minister, Ahmad Hindawi, recently stated, the government plans to move ahead as well in launching its proposed Jordan Authority for Enterprise Development, which is intended to make Jordanian industrial sectors more competitive globally. Hindawi also promised to keep steady the pace of legal reforms currently under way.

PRIVATIZATION

¶10. (C) Accelerating a trend begun under his father, King Abdullah, with USAID assistance, has pushed through privatization of a number of key industries in Jordan. To date, the government has realized revenues of JD 703 million ($984 million) from the sale of its holdings in Jordan Telecom, the Jordan Cement Factories, the Arab Potash Company, an airport hotel and airport duty-free shops. Other government holdings on track for sale include the Aqaba Railways Corporation, Jordan Post, and, if the GOJ can find a buyer, Royal Jordanian. Other possible privatization targets include the Jordan Phosphate Mines Company and the Agricultural Marketing Company. Illustrating how far the government is willing to go down this path, there are even plans to partially privatize the site on the river Jordan where John the Baptist is said to have baptized Christ. The plan is to let a concession to package and market water from the site. This proposal is part of a wider plan to put tourism sites under private management.

¶11. (C) In a sector in which developing countries are often loath to relinquish control, the government is well on track to privatizing electricity generation. The Energy Ministry has received initial bids for the sale of a 65% stake in the Central Electricity Generating Company in a sale that is expected to be completed by year-end. Once that sale is complete, the government intends to sell 100% of the Electricity Distribution Company and a 55.4% stake in the Irbid District Electricity Company (Irbid is a city located in the north of Jordan). When the current round of divestitures is finished, the GOJ plans to retain control of only the main high-voltage electricity transmission lines.

THE INVESTMENT CLIMATE

¶12. (U) Jordan has had difficulty attracting foreign investment beyond the mining sector and the garment-manufacturing Qualifying Industrial Zones. Despite passage of over 220 laws aimed at enhancing Jordan's investment climate, foreign direct investment (FDI) remains modest at $2.3 billion. However, the ratio of FDI to GDP has increased from 3.9% in 1989 to 25.9% in 2002. In what the government hopes is a sign of the future, companies such as Microsoft and Cisco have recently invested in Jordanian ICT firms.

¶13. (U) Certainly the small size of Jordan's market and the political turbulence of the region affect foreign investment in Jordan. Jordan continues to try to enhance its attractiveness to investment and in May established a one-stop shop for investors bringing together representatives from nine government agencies to speed licensing and registration for investors. According to the World Bank, Jordan has succeeded in cutting the time to register a new business from 98 days to 36 days. According to Jordan Investment Board figures, the total stock of investment is up from JD 261 million ($365 million) in 2003 to JD 365 million ($511 million) through November 7 of this year, of which about 20-25% is foreign.

SUCCESSFUL SECTORS

¶14. (U) Two sectors in particular have benefited from the government's attention: pharmaceuticals and information and communication technology. Since 1991, Jordan's pharmaceutical exports have quadrupled in value to $202 million in 2002. Pharmaceuticals were Jordan's third largest export earner in 2002 with sales reaching $275 million. While Jordan has had a regional dominance in the sector for some time, key ingredients in enhancing that success in new markets have included Jordan's accession to the WTO in 2000 and accession to Trade Related Aspects of Intellectual Property Rights (TRIPs). Jordan continues to move ahead on its IPR protections, including in the areas of patents and copyrights. Jordan is also looking to strengthen its relationship with the US FDA in order to further strengthen its own FDA and the pharmaceutical sector overall.

¶15. (U) The ICT sector has also boomed. Total exports of ICT goods and services are up from $20 million in 1999 to $310 million in 2003. Employment in the sector has grown substantially in recent years, with an increase of 10% in each of the past two years. FDI has risen from nil in 1999 to $80 million in 2003. King Abdullah has taken a personal interest in the sector, hosting two international ICT Forums and building strong personal relations with IT CEOs. The push is already showing results as Jordanian software companies are bidding on, and winning, contracts around the world, including in the U.S.

¶16. (U) The ICT sector is also expected to benefit substantially from the end of the Jordan Telecom (JT) fixed line monopoly at the end of the year. This will open up the remaining part of the telecoms sector since the mobile phone sector has already been opened to competition and there are now four providers of mobile or push-to-talk services. The end of the JT monopoly will also cut prices and further open the sector for investment. Ending this monopoly is another of the areas in which USAID has played critical role in advising Jordan on economic reforms.

THE CHALLENGES

¶17. (C) Despite the predominantly positive developments reported in these two cables, Jordan still faces real economic difficulties. Debt levels remain high. Although debt is being cut steadily at the moment, an economic downturn could quickly reverse that picture. Unemployment and poverty are high and these levels help contribute to the impression that the recent prosperity has yet to trickle down to the average Jordanian, particularly to those outside of the capital. Although population growth has slowed to 2.5%, that level is still too high and a population bulge of young people needing jobs still confronts the labor market. Scarce water resources remain a nearly insurmountable hurdle, with Jordan one of the ten most water-poor countries in the world. High oil prices will also continue to strain government finances; the government will find it politically challenging to meet its goal of eliminating fuel subsidies in three to five years. On the trade side, there is great uncertainty about the expiration of the Multi-fibre Arrangement at the end of this year and its effect on the exports of the Qualifying Industrial Zones.

¶18. (C) Adding to these challenges is the need for the government itself to undergo reform. In the new government named last month, the King moved the former Foreign Minister to a new position as Deputy Prime Minister and Minister of State for Prime Ministry Affairs and Government Performance, charged with the task of making government more efficient and responsive. Many Jordanians continue to hold perceptions of high-level corruption, although perhaps less intensely than last summer, when rumors of shady deals were swirling around Amman (reftel A). Nevertheless, there is still almost no transparency in government contracting, and it is widely assumed that under-the-table payments and/or influence-peddling are a routine part of major deals.

COMMENT

¶19. (C) It is important to stress the key role the U.S. has played in supporting the progress Jordan has made in its economic programs. In nearly every initiative undertaken by the Jordanian government over the past five years, USAID and the USG have played an important role. USAID has provided financial support and technical expertise and helped to put flesh on the bones of the strategic vision developed by the King. The U.S. assistance program is trusted and our advice is acted upon. The desire of the King to shake Jordan's economy out if its lethargy was the sine qua non of the country's success to date but USAID lent a critical helping hand.

¶20. (C) Despite the considerable challenges the country must still face, the economic progress of the past five years remains remarkable. Jordan enjoys a more diverse economy, venturing with already demonstrated success into high tech sectors. Debt levels have fallen. Trade is booming, having quickly overcome the country's reliance on the export of substandard goods to Iraq. Official statistics show unemployment and poverty levels falling and Amman, at least, is enjoying a construction boom. A large part of the credit for the flood of good news goes to King Abdullah. Not only has he communicated a vision of economic integration to the people but he has also put in place a series of skilled ministers in the key ministries who can implement this vision.

¶21. (C) Jordan still has a long way to go before its prosperity is assured. The King professes a belief in the necessity of integrated reform, but has yet to find a way (or perhaps the will) to keep political and social liberalization moving at the same quick pace as economic reform. Meanwhile, the pillars that have traditionally kept the monarchy in power -- the East bank military, tribal, and intelligence elites -- are the elements most suspicious of economic liberalization and globalization. Many influential supporters of the King retain a statist mentality, and just don't understand the King's plans for the country. Reform's future in Jordan probably depends on the King's skill at convincing -- or easing aside -- some of his most loyal subjects.

¶22. (U) Baghdad minimize considered.
HALE